MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

PPE0045 – PRINCIPLES OF MACROECONOMICS

(Foundation in Management)

1st MARCH 2017
9.00 a.m. - 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **ELEVEN (11) pages** excluding cover page with Section A and Section B.

2. Answer **ALL** questions in **Sections A & B**.

3. The answers for **Section A** should be shaded on the OMR sheet. The answers for **Section B** should be written in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS [50 MARKS]

Instructions: Answer ALL questions in this section. Shade the answers on the OMR sheet.

1. Gross Domestic Product (GDP) is the total market value of all
   A. final goods and services produced annually within a country's borders.
   B. final and intermediate goods and services produced annually within a country's borders.
   C. intermediate goods and services produced annually within a country's borders.
   D. final goods and services produced every month within a country's borders.

2. Which of the following illustrates double counting?
   A. The total market value of the steel used to produce a car and the total market value of the car itself are summed.
   B. The total market value of tennis rackets and the total market value of tennis balls are summed.
   C. The total market value of picture frames and the total market value of camera film are summed.
   D. The total market value of eyeglasses and the total market value of carpet are summed.

3. Suppose the total market value of all final goods and services produced in a particular country in 2001 is RM500 billion and the total market value of final goods and services sold is RM450 billion. We can conclude that:
   A. GDP in 2001 is RM450 billion.
   B. NDP in 2001 is RM450 billion.
   C. GDP in 2001 is RM500 billion.
   D. inventories in 2001 fell by RM50 billion.

4. Suppose that inventories were RM40 billion in 2000 and RM50 billion in 2001. In 2001, accountants would:
   A. add RM10 billion to other elements of investment in calculating total investment.
   B. subtract RM10 billion from other elements of investments in calculating total investment.
   C. add RM45 billion (= RM90/2) to other elements of investment in calculating total investment.
   D. subtract RM45 billion (= RM90/2) from other elements of investment in calculating total investment.

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5. The term "real GDP" refers to:
   A. the value of the domestic output after adjustments have been made for environmental pollution and changes in the distribution of income.
   B. GDP data that embody changes in the price level, but not changes in physical output.
   C. GDP data that reflect changes in both physical output and the price level.
   D. GDP data that have been adjusted for changes in the price level.

6. The CPI was 117.6 in one year and 121.3 the following year. Approximately how much did prices rise between the two years?
   A. 3.7 percent
   B. 3.15 percent
   C. 0.03 percent
   D. 1.03 percent

7. Which of the following best defines national income?
   A. income received by households less personal taxes
   B. the before-tax income received by households
   C. all incomes earned by Malaysian resource suppliers for their current contributions to production
   D. the market value of the annual output net of consumption of fixed capital.

8. "Economic growth" has occurred if the
   A. inflation rate between this year and last year is zero or less.
   B. GDP this year exceeds the Real GDP this year.
   C. unemployment rate this year is below the natural rate of unemployment.
   D. Real GDP or per-capita Real GDP this year exceeds those of last year.

9. Suppose consumption decreases at each price level. As a result, aggregate demand _____, and the AD curve shifts _____.
   A. increases; leftward
   B. decreases; leftward
   C. increases; rightward
   D. decreases; rightward

10. Which of the following will cause a movement from one point on an AD curve to another point on the same AD curve?
   A. a change in consumption
   B. a change in government expenditures
   C. a change in net exports
   D. a change in the price level

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11. Autonomous consumption is
    A. the change in consumption that results as a person's (or nation's) income increases or decreases.
    B. that portion of total consumption that is dependent upon the level of income.
    C. the steady increase in the consumption of goods and services that automatically occurs as a person grows from a child to an adult.
    D. that portion of total consumption that is independent of the level of income.

12. If income rises from RM1,000 to RM1,300 and consumption rises from RM900 to RM1,160, the marginal propensity to consume is _____ percent.
    A. 87
    B. 80
    C. 30
    D. 13

13. The multiplier process following a drop in autonomous spending is
    A. just as powerful as for a rise in autonomous spending.
    B. more powerful than for a rise in autonomous spending.
    C. less powerful than for a rise in autonomous spending.
    D. nonexistent, because the multiplier applies only to a rise in autonomous spending.

14. Which of the following equations most simply represents GDP in a closed economy?
    A. $Y = C + I + G + NX$
    B. $S = I - G$
    C. $I = Y - C + G$
    D. $Y = C + I + G$

15. Unemployment compensation benefits are an example of _____ fiscal policy.
    A. expansionary discretionary
    B. automatic
    C. contractionary
    D. discretionary

16. Expansionary fiscal policy actions include _____ government spending and/or _____ taxes, while contractionary fiscal policy actions include _____ government spending and/or _____ taxes.
    A. increasing; increasing; decreasing; decreasing
    B. decreasing; decreasing; increasing; increasing
    C. increasing; decreasing; increasing; decreasing
    D. increasing; decreasing; decreasing; increasing

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17. M1 is comprised of currency held outside banks + checkable deposits + _____.
    A. credit cards
    B. saving deposits
    C. gold
    D. traveller's checks

18. Which of the following is not a major responsibility of the BNM?
    A. supplying the economy with paper money
    B. providing check-clearing services
    C. supervising member banks
    D. All of the above are major responsibilities of the BNM.

19. Bank A has checkable deposits of RM10,000 and reserves of RM4,000. The required reserve ratio is 12.5 percent. The bank has excess reserves of
    A. RM1,250.
    B. RM8,750.
    C. RM4,000.
    D. RM2,750.

20. In the equation of exchange, the letter "V" stands for
    A. variance.
    B. validity.
    C. volume.
    D. velocity.

21. If the BNM were to increase the legal reserve ratio, we would expect:
    A. lower interest rates, an expanded GDP, and depreciation of RM.
    B. lower interest rates, an expanded GDP, and appreciation of RM.
    C. higher interest rates, a contracted GDP, and appreciation of RM.
    D. higher interest rates, a contracted GDP, and depreciation of RM.

22. A commercial bank can add to its actual reserves by:
    A. lending money to bank customers.
    B. buying government securities from the public.
    C. buying government securities from BNM.
    D. borrowing from BNM.

23. BNM wants to increase the money supply through an open market operation, it will
    A. purchase government securities.
    B. sell government securities.
    C. first purchase, then sell, government securities.
    D. lend more reserves to commercial banks.

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24. People will want to hold less money if the price level
    A. or the interest rate increases.
    B. or the interest rate decreases.
    C. increases or the interest rate decreases.
    D. decreases or the interest rate increases

25. The base year is the year
    A. in which prices are unstable.
    B. in which prices are lowest.
    C. in which prices are highest.
    D. that serves as a reference point or benchmark.

26. Economists all agree that
    A. neither high inflation nor moderate inflation is very costly.
    B. both high and moderate inflation are quite costly.
    C. high inflation is costly, but disagree about the costs of moderate inflation.
    D. moderate inflation is as costly as high inflation.

27. The nominal interest rate is 5 percent and the real interest rate is 2 percent. What is the inflation rate?
    A. 10 percent
    B. 7 percent
    C. 3 percent
    D. 2.5 percent

28. As inflation rises, people will tend to
    A. go to the bank more often. This is known as menu costs.
    B. go to the bank more often. This is known as shoeleather costs.
    C. go to the bank less often. This is known as the inflation fallacy.
    D. go to the bank less often. This is known as redistribution costs.

29. Persons who are retired or engaged in own-home housework are considered to be in which of the following categories?
    A. in the civilian labour force
    B. not in the labour force
    C. employed
    D. unemployed

30. "Full employment" is said to exist when the unemployment rate equals
    A. zero.
    B. the cyclical unemployment rate.
    C. the structural unemployment rate.
    D. the natural unemployment rate.

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31. The unemployment due to changes in the types of skills employers require is called _____ unemployment.
    A. structural
    B. cyclical
    C. natural
    D. frictional

32. In the long run, the inflation rate depends primarily on
    A. the ability of unions to raise wages.
    B. government spending.
    C. the money supply growth rate.
    D. the monopoly power of firms.

33. Which of the following is NOT an advantage of international trade?
    A. Higher efficiency due to competition.
    B. Greater market for local products.
    C. Insufficiency and lack of resources to produce product.
    D. Higher standard of living in the country.

34. Absolute advantage is found by comparing different producers'
    A. opportunity costs.
    B. payments to land, labour, and capital.
    C. input requirements per unit of output.
    D. locational and logistical circumstances.

35. Kelly and David are both capable of repairing cars and cooking meals. Which of the following scenarios is not possible?
    A. Kelly has a comparative advantage in repairing cars and David has a comparative advantage in cooking meals.
    B. Kelly has an absolute advantage in repairing cars and David has an absolute advantage in cooking meals.
    C. Kelly has a comparative advantage in repairing cars and in cooking meals.
    D. Kelly has an absolute advantage in repairing cars and in cooking meals.

36. If a country allows trade and, for a certain good, the domestic price without trade is lower than the world price,
    A. the country will be an exporter of the good.
    B. the country will be an importer of the good.
    C. the country will be neither an exporter nor an importer of the good.
    D. Additional information is needed about demand to determine whether the country will be an exporter of the good, an importer of the good, or neither.

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37. If the world price of textiles is higher than Vietnam's domestic price of textiles without trade, then Vietnam
    A. should import textiles.
    B. has a comparative advantage in textiles.
    C. should produce just enough textiles to meet its domestic demand.
    D. should refrain altogether from producing textiles.

38. Suppose Haiti has a comparative advantage over other countries in producing sugar, but other countries have an absolute advantage over Haiti in producing sugar. If trade in sugar is allowed, Haiti
    A. will import sugar.
    B. will export sugar.
    C. will either export sugar or export sugar, but it is not clear from the given information.
    D. would have nothing to gain either from exporting or importing sugar.

39. When a country allows trade and becomes an importer of a good,
    A. both domestic producers and domestic consumers become better off.
    B. domestic producers become better off, and domestic consumers become worse off.
    C. domestic producers become worse off, and domestic consumers become better off.
    D. both domestic producers and domestic consumers become worse off.

40. A tariff on a product makes
    A. domestic sellers better off and domestic buyers worse off.
    B. domestic sellers worse off and domestic buyers worse off.
    C. domestic sellers better off and domestic buyers better off.
    D. domestic sellers worse off and domestic buyers better off.

41. A quota is
    A. a tax placed on imports.
    B. a limit on the quantity of imports.
    C. a tax on exports to other countries.
    D. an excess of exports over imports.

42. An international transaction that supplies the nation's currency also creates a
    A. supply of foreign currency, and is recorded as a credit in the balance of payments.
    B. demand for foreign currency, and is recorded as a credit in the balance of payments.
    C. demand for foreign currency, and is recorded as a debit in the balance of payments.
    D. supply of the nation's currency, and is recorded as debit in the balance of payments.

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43. If the French buy American computers, they
A. demand U.S. dollars and supply French francs.
B. demand U.S. dollars and demand French francs.
C. supply U.S. dollars and demand French francs.
D supply both U.S. dollars and French francs.

44. If the dollar price per pound moves from \$1.90 to \$1.40 = £1, the pound is said to have _____ and the dollar to have _____.
A. depreciated; appreciated
B. appreciated; appreciated
C. appreciated; depreciated
D. depreciated; depreciated

45. The lower the dollar price per yen, the _____ Japanese goods are for Americans and the _____ Japanese goods American will buy; thus _____ yen will be demanded.
A. more expensive; more; fewer
B. more expensive; fewer; fewer
C. less expensive; more; more
D. less expensive; more; fewer

46. The U.S. dollar has appreciated relative to the French franc if it takes
A. fewer francs to buy a dollar
B. fewer dollars to buy a franc.
C. more dollars to buy a franc.
D. none of the above.

47. Under a fixed exchange rate system, if Ringgit Malaysia is overvalued then there exists
A. A shortage of ringgit.
B. A surplus of ringgit.
C. The equilibrium level of ringgit.
D. There is not enough information the answer the question.

48. Suppose the same basket of goods costs \$100 in the U.S. and 50 pounds in Britain. According to purchasing power parity, what is the nominal exchange rate?
A. 2 pounds per dollar
B. 1 pound per dollar
C. 1/2 pound per dollar
D. None of the above is correct

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49. The nominal exchange rate is about 1.8 Aruban florin per dollar. If a basket of goods in the United States costs $40, how many florins must a basket of goods in Aruba cost for purchasing power parity to hold?
A. 18 florin
B. 36 florin
C. 72 florin
D. 90 florin

50. An MP3 player in Malaysia costs RM450. In the U.S. it costs 100 US dollars. Which of the following is correct?
A. if the nominal exchange rate is RM4.50 per U.S. dollar, purchasing power parity holds.
B. if the nominal exchange rate is RM1 per U.S. dollar, purchasing power parity holds.
C. if the nominal exchange rate is RM0.22 per U.S. dollar, purchasing power parity holds.
D. purchasing power parity does not hold at any of the above exchange rates.

SECTION B: STRUCTURED QUESTIONS (50 MARKS)

Instructions: Answer **ALL** questions in this section. Write your answers in the answer booklet provided.

Question 1

a) Table below shows the national income accounting data for the county XYZ in year 2016:

	RM (billion)
Gross private domestic investment	105
Indirect business taxes	56
Public transfer payments	40
Personal taxes	38
Consumption expenditures	265
Import	60
Export	70
Rental income	65
Corporate taxes	48
Government purchases	170
Consumption of fixed capital	50
Income payments abroad	52
Income earned from abroad	43
Proprietors income	95

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Using ***expenditure approach***, calculate:

i. Gross Domestic Product (GDP)
ii. Gross National Product (GNP)
iii. National Income (Net National Product at factor cost)
iv. Disposable Income (DI)
v. GDP per capita if the country has a population of 250 million

(15 marks)

b) Briefly describe any **FIVE (5)** transactions that take place in an economy but not included in Gross Domestic Product (GDP). (5 marks)

[Total: 20 marks]

Question 2

a) Differentiate between structural and cyclical unemployment. (4 marks)

b) What is Fiscal policy? Discuss how expansionary and contractionary fiscal policy can be used to solve macroeconomic problems. (6 marks)

c) Suppose the Central Bank (BNM) prints RM1,000 in new paper money and gives it to David. David takes the newly created money and deposits in the XYZ bank. If the reserve requirement is 10%:

i. What is the size of the bank's required reserves? (2 marks)
ii. How much excess reserve does the bank has? (2 marks)
iii. What is the value of the simple deposit multiplier? (2 marks)
iv. How much the total money supply does expanded? (2 marks)

[Total: 18 marks]

Question 3

a) Table below shows the production patterns of computers and television sets (TV) for country A and B without an international trade. Both countries have equal allocation of resources between computer and TV productions.

	Computer	TV
Country A	800	200
Country B	1200	600

i. Which country has an absolute advantage in producing computers and television sets respectively? (1 mark)

Continued...

ii. Explain which country has a comparative advantage in the production of computers and television sets respectively. (3 marks)

iii. If the countries start trading with each other, which country will specialize and export computers and television sets respectively? (1 mark)

b) Distinguish between fixed and flexible exchange rate systems. (2 marks)

c) Differentiate between the current account balance and the merchandise trade balance? (2 marks)

d) State any **THREE (3)** determinants of foreign exchange rates. (3 marks)

[Total: 12 marks]

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